

Ludington Area School District

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

Ludington Area School District

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Ludington Area School District

Management's Discussion and Analysis

Ludington Area School District, a public K-12 education institution, is located in Ludington, Michigan. Management's Discussion and Analysis, a requirement of GASB 34, is intended to be Ludington Area School District's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

The Governmental Accounting Standards Board in their Statement No. 34 adopted this new reporting model; *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* in June 2000. GASB 34 requires the reporting of two types of financial statements: *District Wide Financial Statements* and *Fund Financial Statements*.

Using this Annual Report:

This annual report consists of a series of financial statements and notes to those statements, designed by the Ludington Area Schools and its agents for ease of use and effective encoding of critical financial information.

The District-wide Financial Statements provide information about the activities of the School District in total and its long-term position. The Fund Financial Statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's larger individual funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students.

Reporting the School District as a Whole – District-wide Financial Statements:

The district-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements, which appear first in the School District's financial statements, report information on the District as a whole and its activities in a way to provide an easy-to-understand overview of the District's financial position and results of operations for the year. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, similar to the accounting used by the private-sector. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Ludington Area School District's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results.

The Statement of Net Assets and Statement of Activities report the governmental activities of the Ludington Area School District, which encompass all of the District's services, including instruction, supporting services, and community services. Property taxes, state aid, and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements:

The Ludington Area School District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and bond covenants. However, the District has established other funds to help it control and manage money for particular purposes. The governmental funds of the District use the following accounting approach:

Governmental funds: All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship or differences between governmental activities reported in the fund financial statements and the district-wide financial statements in a reconciliation schedule.

The School District as Trustee – Reporting the District's Fiduciary Responsibilities:

The Ludington Area School District serves as a trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Ludington Area School District

Management's Discussion and Analysis

The School District as a Whole:

Note that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the Ludington Area School District's net assets as of June 30, 2008 and 2007.

TABLE 1 Statement of Net assets

	2008 <u>in millions</u>	2007 <u>in millions</u>
Assets		
Current and other assets	\$ 6.5	\$ 5.9
Capital assets – Net of accumulated depreciation	<u>19.3</u>	<u>17.4</u>
Total assets	25.8	23.3
Liabilities		
Current liabilities	4.5	2.5
Long-term liabilities	<u>10.0</u>	<u>9.6</u>
Total liabilities	<u>14.5</u>	<u>12.1</u>
Net Assets		
Invested in capital assets, net of debt	9.5	8.5
Restricted	0.4	1.1
Unrestricted	<u>1.4</u>	<u>1.6</u>
Total net assets	<u>\$ 11.3</u>	<u>\$ 11.2</u>

The aforementioned analysis focuses on our Statement of Net Assets (see Table 1). Current and other net assets increased by .6 million dollars due to an increase in investments in the General fund offset by ongoing construction activities in the Sinking Fund. As a result of these construction activities capital assets increased. The School District has a total net asset balance of \$11.3 million. Of this amount, \$1.4 million represents unrestricted net assets of governmental activities.

Ludington Area School District

Management's Discussion and Analysis

The Statement of Activities (Table 2) for the School District is summarized below:

TABLE 2 Statement of Net assets

	2008 <u>in millions</u>	2007 <u>in millions</u>
Revenues		
Program revenues		
Charges for services	\$ 1.3	\$ 1.0
Operating grants and contributions	3.6	2.8
General revenue		
Property taxes	13.4	12.4
Grants and unrestricted contriibutions	4.4	6.4
Other	0.4	0.4
Special item - Loss on disposal of school building	(0.3)	-
Total revenues	<u>22.8</u>	<u>23.0</u>
Program expenses		
Instruction	15.2	14.5
Support services	5.9	5.7
Community services	0.1	0.1
Food services	0.6	0.6
Athletics	0.5	0.4
Unallocated depreciatioon	-	0.8
Debt service	0.4	0.4
Total expenses	<u>22.7</u>	<u>22.5</u>
Change in net assets	0.1	0.5
Net assets at the beginning of the year	<u>11.2</u>	<u>10.7</u>
Net assets at the end of the year	\$ <u><u>11.3</u></u>	\$ <u><u>11.2</u></u>

The results of the School District's operations for the years ended June 30, 2008 and 2007 as a whole are reported in this Statement of Activities.

As reported in the Statement of Governmental Activities, the revenues for all our governmental activities this year were \$22.8 million. Ludington Area School District experienced an increase in instruction expenditures due to allocation of depreciation to functions this year along with normal salary and wage increases. These costs were partially offset by staff reductions. Support services increased due to allocation of depreciation.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for specific purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

The following is a summary of changes in fund balances within the individual funds.

Major Funds:

- Our General Fund reflects an increase in fund balance of approximately \$10,500, on revenues of \$21 million. This is approximately a breakeven year, due partly to continued cuts in staffing (reduction of 4.5 positions). Also, our teacher health premiums actually decreased 2.2 percent, or a savings of approximately \$50,000. Also, our State retirement rate decreased one percent from last year, reducing our expenses by approximately \$120,000.
- The School District was approved to establish a 10-year sinking fund for the maintenance of buildings throughout the school district. Approximately \$2.6 million was spent during 2007/08 school year, primarily on renovations and additions at Foster Elementary. Foster will house all of our third, fourth and fifth grade students starting September, 2008.

Other Governmental Funds:

- The Capital Project Fund is a construction fund financed by a \$10.155 million bond, which is totally expensed as of June 30, 2008. This funded the renovation project at our High School and O.J. DeJonge Middle School. The project included replacement of boilers, roof replacement, room design renovation, replacement of flooring, instructional labs, electrical and other infrastructure improvements, and gymnasium renovations.
- The school service funds experienced an overall fund balance decrease of \$3,824. Food service prices were unchanged from last year, and more than \$13,000 was spent for equipment and signage. Athletics spent in excess of \$7,000 on additional equipment at the O.J. DeJonge, anticipating the arrival of sixth grade students there for 2008/09.
- The Debt Service Funds has a fund balance \$451,756, comprised solely of excess revenue from the annual Construction Fund Debt levy.

Ludington Area School District

Management's Discussion and Analysis

Governmental Fund Budgetary Analysis

The following tables show the original and final approved budgets for the 2007/08 School Year, as well as the actual revenues and expenditures for the general operating fund.

TABLE 3 GENERAL FUND REVENUES 2007/2008

Account Code	Revenues	Original Budget	Amended budget	Actual Revenues
100	Local	\$ 11,962,135	\$ 12,771,077	\$ 12,743,557
300	State	7,076,583	6,271,951	6,452,775
400	Federal	989,576	1,076,987	1,168,012
500	Incoming transfers and other transactions	<u>618,500</u>	<u>607,000</u>	<u>638,155</u>
	Total Revenues and other transactions	<u>\$ 20,646,794</u>	<u>\$ 20,727,015</u>	<u>\$ 21,002,499</u>

DISCUSSION AND ANALYSIS:

Property valuations increased more than expected and interest revenues were more than expected. The State revenue decreased in proportion to the property tax revenue increase. Federal assistance increased because of higher than expected spending on a three-year grant at our alternative education school and because of an increase in our Title I allocation. Our Medicaid service coordination money was also higher than expected. Efficiency factor for revenues: 98.90% of final budget (1.1 percent more than budgeted). This variance is mostly due to conservatism for planning purposes.

Ludington Area School District

Management's Discussion and Analysis

TABLE4 GENERAL FUND EXPENDITURES 2007/2008

Account Code	Expenditures	Original Budget	Amended budget	Actual Revenues
	Instruction			
110	Basic needs	\$ 11,489,249	\$ 11,460,871	\$ 11,399,934
120	Added needs	3,039,059	3,082,122	3,125,649
	Support services			
210	Pupil	625,321	629,277	610,384
220	Instructional staff	440,321	548,915	457,023
230	General administrative	280,237	308,714	295,451
240	School administrative	1,301,879	1,260,076	1,221,033
250	Business	517,000	609,505	591,379
260	Operations and maintenance	1,875,255	1,914,462	1,913,355
270	Pupil transportation services	923,490	892,768	847,090
280	Central	93,600	91,600	74,241
300	Community services	105,740	105,740	88,146
500	Outgoing transfers and other transactions	393,600	368,600	368,300
	Total expenditures	\$ <u>21,084,751</u>	\$ <u>21,272,650</u>	\$ <u>20,991,985</u>

DISCUSSION AND ANALYSIS:

Our original budget was added to because of conservatism. Otherwise, there were no surprises regarding expenses, save for Added needs being over budget by 1.4%. Budget efficiency factor relative to the original budget: 99.56%.

Ludington Area School District

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the School District had an increase in net capital assets over the previous fiscal year as shown below.

	2008	2007
Land	\$ 901,095	\$ 914,933
Land improvements	190,500	190,500
Construction in progress	2,016,784	114,936
Buildings and improvements	15,212,780	15,534,136
Furniture and equipment	512,910	449,992
Vehicles	112,303	162,878
Total	<u>\$ 18,946,372</u>	<u>\$ 17,367,375</u>

This year's additions were almost entirely because of renovations and additions at our Foster Elementary building. These renovations will be in excess of \$2.5 million (spent over three school years). This project was still in progress as of June 30, 2008. Final punch list items are scheduled to be completed by fall, 2008. The school will now house all third, fourth and fifth grade students attending Ludington Area Schools. The amount reported as Construction in progress for last year was moved to the Buildings and improvements category for the current year.

Debt

At June 30, 2008, Ludington Area School District had \$9,320,443 in outstanding debt. Those obligations consisted of the following:

	2008	2007
2003 Construction bonds	\$ 8,520,000	\$ 8,925,000
2003 School building and site bond premium	185,466	203,025
Durant bond, state guaranteed	163,372	163,372
2007 Building and site bonds	980,000	-
Compensated absences	625,336	790,116
Total	<u>\$ 10,474,174</u>	<u>\$ 10,081,513</u>

The School District is only obligated to make the annual payments on the Durant Bonds to the extent of annual State of Michigan school aid appropriations. The Sinking Fund building and site bonds in the amount of \$980,000 were issued to fund the renovations and additions at Foster Elementary. The Sinking Fund will generate enough income to redeem these bonds in total as of November 1, 2011.

Economic Factors and Next Year's Budgets

All K-12 public schools receive a per pupil financial allowance by the State of Michigan. Local funds are collected on non-homestead property, and the difference between that amount and the amount guaranteed by the State of Michigan for the number of students enrolled is made up by the State. Ludington Area School District continues to receive more of its foundation allowance from local property tax revenue than is average State-wide. This disparity continues to widen, due to decreasing student enrollment and increasing property values.

The per-pupil allocation paid by the State of Michigan to local school districts increased by \$89 for 2007/08, which is an increase of 1.2 percent. Our school district continued a physician's preferred health plan for its employees, and the rate of increase has been modest. The percentage paid by local school districts to the State retirement fund decreased from 17.74 percent of payroll to 16.72 percent. This rate is scheduled to decrease to 16.54 percent as of October 1, 2008. The teacher health package premium for the School District decreased by about 2.2 percent for 2007/08. Furthermore, the rate of increase for the teacher health package premium will be approximately .2 percent for 2008/09.

We continue to face: an economic downturn that limits revenues while cost levels continue to increase; a general decline in student population; increased professional development needs due to the requirements of No Child Left Behind Act and other legislation; changes in special education laws and increased emphasis on early identification of children with special needs; as well as other challenges. All of these factors have an economic impact on our enterprise.

The Michigan legislature has not agreed upon the Foundation Allowance for 2008/09 presently, but we expect that the increase will be approximately \$104 for Ludington Area Schools.

As a result of all the items noted above, the School District adopted its fiscal year 2008/2009 budget calling for a decrease in fund balance of approximately \$650,000. We anticipate doing better than this. We will again issue a State Aid Anticipation Note this year in the amount of \$1.3 million.

The School District is finishing up the renovations and additions at Foster Elementary, and will do so under budget. Additional work was performed as well as the original scope of project. The additional work included renovating the Foster kitchen, additional data drops and stations for computers, and installing over 1,000 square feet of rolled vinyl along the breakfast/lunch cuing area emptying into the gym. This project is allowing us to close one school outright, and is also allowing us to convert our Pere Marquette Elementary into a pre-kindergarten building. Savings to the school district the first year will exceed \$230,000.

Ludington Area School District

Management's Discussion and Analysis

Contacting the School District's Financial Management

This financial report is designed to provide a general overview of the Ludington Area School District's finances for all those interested in the School District's finances. If you have questions about this report or need additional information, contact the Central Business Office, 809 E. Tinkham Ave., Ludington, Michigan 49431.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 22, 2008

Board of Education
Ludington Area School District
Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ludington Area School District (School District), as of and for the year ended June 30, 2008, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ludington Area School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ludington Area School District, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated September 22, 2008, on our consideration of Ludington Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - x and page 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Ludington Area School District
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

		Program Revenue		Net (Expense)
				Revenue and
				Changes in
				Net Assets
<i>Functions/Programs</i>	Expenses	Charges for	Operating grants	Governmental
		services	and contributions	activities
Governmental activities				
Instruction	\$ 15,173,931	\$ 624,089	\$ 3,153,557	\$ (11,396,285)
Support services	5,922,126	329,934	81,830	(5,510,362)
Community services	88,146	52,975	-	(35,171)
Food services	628,282	217,529	411,481	728
Athletics	493,158	82,625	-	(410,533)
Interest on long-term debt	408,480	-	-	(408,480)
Total governmental activities	<u>\$ 22,714,123</u>	<u>\$ 1,307,152</u>	<u>\$ 3,646,868</u>	(17,760,103)
General revenues and special item				
Property taxes levied for				
General purposes				11,993,457
Debt service				1,431,717
Grants and contributions not restricted to specific programs				4,428,248
Unrestricted investment earnings				392,908
Miscellaneous				5,230
Special item - Loss on disposal of school building				<u>(338,429)</u>
Total general revenues				<u>17,913,131</u>
Change in net assets				153,028
Net assets at July 1, 2007				<u>11,170,848</u>
Net assets at June 30, 2008				<u>\$ 11,323,876</u>

The accompanying notes are an integral part of this statement.

Ludington Area School District
BALANCE SHEET
Governmental Funds
June 30, 2008

	General Fund	Sinking Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 2,581,208	\$ 97,960	\$ 390,177	\$ 3,069,345
Investments	1,905,179	-	105,730	2,010,909
Receivables	62,994	18,131	1,885	83,010
Due from other governmental units	1,337,246	-	5,063	1,342,309
Due from other funds	450	10,570	16,369	27,389
Prepaid items	2,720	-	-	2,720
Inventories	-	-	9,026	9,026
Total assets	<u>\$ 5,889,797</u>	<u>\$ 126,661</u>	<u>\$ 528,250</u>	<u>\$ 6,544,708</u>
LIABILITIES AND FUND BALANCES (DEFICIT)				
Liabilities				
State aid loan	\$ 1,300,000	\$ -	\$ -	\$ 1,300,000
Accounts payable	59,699	344,200	-	403,899
Accrued liabilities	1,901,148	-	12,043	1,913,191
Due to other governmental units	303,080	-	-	303,080
Deferred revenues	4,195	-	-	4,195
Due to other funds	<u>26,939</u>	<u>-</u>	<u>450</u>	<u>27,389</u>
Total liabilities	3,595,061	344,200	12,493	3,951,754
Fund balances (deficit)				
Reserved				
Prepaid items	2,720	-	-	2,720
Inventories	-	-	9,026	9,026
Debt service	-	-	451,756	451,756
Capital projects	-	-	45,187	45,187
Unreserved				
Undesignated				
General Fund	2,292,016	-	-	2,292,016
Special revenue funds	-	-	9,788	9,788
Capital projects	<u>-</u>	<u>(217,539)</u>	<u>-</u>	<u>(217,539)</u>
Total fund balances	<u>2,294,736</u>	<u>(217,539)</u>	<u>515,757</u>	<u>2,592,954</u>
Total liabilities and fund balances	<u>\$ 5,889,797</u>	<u>\$ 126,661</u>	<u>\$ 528,250</u>	<u>\$ 6,544,708</u>

The accompanying notes are an integral part of this statement.

Ludington Area School District
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balance—governmental funds	\$	2,592,954
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 28,122,600	
Accumulated depreciation	<u>(9,176,228)</u>	18,946,372

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	213,019	
Accumulated amortization	<u>(48,817)</u>	164,202

Other long-term note receivable in governmental activities is not reported in the
governmental funds.

195,822

Accrued interest in governmental activities is not reported in the governmental funds.

(101,300)

Premium on bonds payable is not capitalized and amortized in the governmental funds.

Bond premium	(263,384)	
Accumulated amortization	<u>77,918</u>	(185,466)

Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds and notes payable	(9,663,372)	
Compensated absences	<u>(625,336)</u>	<u>(10,288,708)</u>

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>11,323,876</u></u>
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The accompanying notes are an integral part of this statement.

Ludington Area School District
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,069,345
Investments	2,010,909
Receivables	83,010
Due from other governmental units	1,342,309
Prepaid items	2,720
Inventories	9,026
Total current assets	6,517,319
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	3,108,379
Depreciable	15,837,993
Bond issuance costs, net	164,202
Note receivable	195,822
Total noncurrent assets	19,306,396
Total assets	25,823,715
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	1,300,000
Accounts payable and accrued liabilities	2,418,390
Due to other governmental units	303,080
Deferred revenue	4,195
Bonds and other obligations, due within one year	435,400
Total current liabilities	4,461,065
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	10,038,774
Total liabilities	14,499,839
NET ASSETS	
Invested in capital assets, net of related debt	9,523,068
Restricted for debt service	387,556
Unrestricted	1,413,252
Total net assets	\$ 11,323,876

The accompanying notes are an integral part of this statement.

Ludington Area School District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
Governmental Funds
For the year ended June 30, 2008

	General Fund	Sinking Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 11,993,457	\$ 491,334	\$ 940,383	\$ 13,425,174
Investment earnings	339,758	26,854	26,295	392,907
Fees and charges	327,083	-	300,154	627,237
Other	83,259	1,830	-	85,089
Total local sources	12,743,557	520,018	1,266,832	14,530,407
State sources	6,452,775	-	38,643	6,491,418
Federal sources	1,168,012	-	372,838	1,540,850
Total revenues	20,364,344	520,018	1,678,313	22,562,675
EXPENDITURES				
Instruction	14,525,583	-	-	14,525,583
Support services	6,009,956	-	-	6,009,956
Community services	88,146	-	-	88,146
Food services	-	-	620,507	620,507
Athletics	-	-	463,252	463,252
Debt service				
Principal	-	-	405,000	405,000
Interest and other charges	-	10,606	397,382	407,988
Capital projects	-	2,634,288	46,117	2,680,405
Total expenditures	20,623,685	2,644,894	1,932,258	25,200,837
Excess (deficiency) of revenues over (under) expenditures	(259,341)	(2,124,876)	(253,945)	(2,638,162)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	638,155	-	-	638,155
Proceeds from long-term debt	-	980,000	-	980,000
Transfers in	-	-	368,300	368,300
Transfers out	(368,300)	-	-	(368,300)
Total other financing sources (uses)	269,855	980,000	368,300	1,618,155
Net change in fund balances	10,514	(1,144,876)	114,355	(1,020,007)
Fund balances at July 1, 2007	2,284,222	927,337	401,402	3,612,961
Fund balances (deficit) at June 30, 2008	\$ 2,294,736	\$ (217,539)	\$ 515,757	\$ 2,592,954

The accompanying notes are an integral part of this statement.

Ludington Area School District
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICIT) TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2008

Net change in fund balances—total governmental funds	\$ (1,020,007)
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Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures;
in the Statement of Activities these costs are depreciated and amortized over their estimated
useful lives, respectively.

Depreciation and amortization expense	\$ (871,742)	
Capital outlay	<u>2,790,218</u>	1,918,476

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.	(350,130)
---	-----------

Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.	4,750
---	-------

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.	(980,000)
--	-----------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	405,000
---	---------

Bond premiums are amortized over time in the Statement of Activities, but are recorded in full in the year received in the governmental funds.	17,559
---	--------

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	(7,400)
--	---------

Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds	<u>164,780</u>
--	----------------

Change in net assets of governmental activities	<u><u>\$ 153,028</u></u>
---	--------------------------

The accompanying notes are an integral part of this statement.

Ludington Area School District
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2008

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u><u>174,016</u></u>
 LIABILITIES	
Deposits held for others	\$ <u><u>174,016</u></u>

The accompanying notes are an integral part of this statement.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Ludington Area School District (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Sinking Fund* accounts for the sinking fund property taxes received for the acquisition of fixed assets or construction of major capital projects.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *Capital Project Fund* is the School District's bond construction fund. It accounts for all the financial resources and expenditures related to the 2003 bond issue.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	18.0
Debt Service Fund—Homestead/Non-homestead	.94
Sinking Fund—Homestead/Non-homestead	.50

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	50 years
Buses and other vehicles	7 years
Furniture and other equipment	5 to 20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deferred Revenue

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Reclassification

Certain prior year amounts have been reclassified for comparative purposes to conform to the current year presentation.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

Fund Deficits

As of June 30, 2008, the Sinking Fund had a deficit of \$217,539. The deficit will be eliminated through future operations.

School Bond Construction Compliance

The 2004 Capital Projects Fund includes capital project activities funded with bonds dated and issued November 19, 2003. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 2004 Capital Projects Fund from the inception of the fund through June 30, 2008.

	<u>Capital Project Fund</u>
Revenue and bond proceeds	\$ 10,754,691
Expenditures	10,754,691

Sinking Fund Compliance

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
External investment pool	\$ 2,902,400	30	not rated	68 %
Guaranteed Investment Contract (GIC)	<u>1,338,762</u>	366	1+	<u>32</u>
Total fair value	<u>\$ 4,241,162</u>			<u>100 %</u>
Portfolio weighted average maturity		<u>138</u>		

The School District voluntarily invests certain excess funds in an external investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan school districts. The Pool is not regulated nor registered with the SEC. The fair value of the School District's investments is the same as the fair value of the Pool.

Interest rate risk. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$1,188,310 of the School District's bank balance of \$1,388,310 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the state aid anticipation note disclosed in Note G. The Investment Agreement dated as of August 20, 2007, by and among Wells Fargo Bank, N.A., both as the Depository on behalf of the participating Michigan School Districts and the Michigan Municipal Bond Authority, and Citigroup Global Markets, Inc., as Provider. The net proceeds from the sale of the Series B-1 Notes were loaned by the Authority to Michigan School Districts. Such loans were repaid with monthly set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 102 percent of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity. The Guaranteed Rate under this Investment Agreement (commonly referred to as a guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 5.02 percent (simple interest actual days elapsed over a 365-day year). The Guarantor is Citigroup Global Markets Holdings, Inc., as guarantor of the Provider's obligations under this Investment Agreement.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 914,933	\$ -	\$ 13,838	\$ 901,095
Land improvements	190,500	-	-	190,500
Construction in progress	<u>114,936</u>	<u>2,016,784</u>	<u>114,936</u>	<u>2,016,784</u>
Total capital assets, not being depreciated	1,220,369	2,016,784	128,774	3,108,379
Capital assets, being depreciated:				
Buildings and improvements	21,957,769	721,330	702,356	21,976,743
Furniture and equipment	1,508,066	167,040	-	1,675,106
Vehicles	<u>1,439,790</u>	<u>-</u>	<u>77,418</u>	<u>1,362,372</u>
Total capital assets, being depreciated	24,905,625	888,370	779,774	25,014,221
Less accumulated depreciation:				
Buildings and improvements	6,423,633	706,594	366,264	6,763,963
Furniture and equipment	1,058,074	104,122	-	1,162,196
Vehicles	<u>1,276,912</u>	<u>50,375</u>	<u>77,218</u>	<u>1,250,069</u>
Total accumulated depreciation	<u>8,758,619</u>	<u>861,091</u>	<u>443,482</u>	<u>9,176,228</u>
Total capital assets, being depreciated, net	<u>16,147,006</u>	<u>27,279</u>	<u>336,292</u>	<u>15,837,993</u>
Capital assets, net	<u>\$ 17,367,375</u>	<u>\$ 2,044,063</u>	<u>\$ 465,066</u>	<u>\$ 18,946,372</u>

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 749,298
Athletics	29,906
Food Service	8,039
Support Services	<u>73,848</u>
	<u>\$ 861,091</u>

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bond issuance costs	\$ 213,019	\$ -	\$ -	\$ 213,019
Less accumulated amortization	<u>38,166</u>	<u>10,651</u>	<u>-</u>	<u>48,817</u>
Bond issuance costs, net	<u>\$ 174,853</u>	<u>\$ (10,651)</u>	<u>\$ -</u>	<u>\$ 164,202</u>

Amortization

Amortization expense has been charged as interest.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2008 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental fund	\$ 450
Other governmental fund	General Fund	16,369
Sinking Fund	General Fund	<u>10,570</u>
		<u>\$ 27,389</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$363,300 to the Athletics Fund and \$5,000 to the Food Service Fund to finance operations.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE G—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2008 follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
State aid anticipation note				
2007/2008 3.68% due August 2008	\$ -	\$ 1,300,000	\$ -	\$ 1,300,000

NOTE H—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations consisted of capital leases.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental activities:					
Bonds	\$ 9,088,372	\$ 980,000	\$ 405,000	\$ 9,663,372	\$ 420,000
Unamortized premium	203,025	-	17,559	185,466	15,400
Compensated absences	790,116	97,280	262,060	625,336	-
	<u>\$ 10,081,513</u>	<u>\$ 1,077,280</u>	<u>\$ 684,619</u>	<u>\$ 10,474,174</u>	<u>\$ 435,400</u>

General obligation bonds consist of the following:

2003 School Building and Site Bond payable	
in annual installments ranging from	
\$420,000 to \$1,440,000 due May 2008	
to 2023; plus interest ranging from 4%	
to 5.25% payable semi-annually	\$ 8,520,000

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds—Continued

2008 School Building and Site Bond payable in annual installments ranging from \$480,000 to \$500,000 due November 2010 to 2011; plus interest at 2.75% payable semi- annually	\$ 980,000
Durant obligations payable in annual installments ranging from \$19,430 to \$130,544 including interest at 4.76% due May 2009 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	<u>163,372</u>
Total bonded debt	9,663,372
2003 School Building and Site Bond premium	185,466
Compensated absences	<u>625,336</u>
	<u><u>\$ 10,474,174</u></u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligation.

The 2008 School Building and Site bonds, including interest, were borrowed against the School District's Sinking Fund. The School District has pledged future tax revenues that will result from the additional mills levied for the Sinking Fund as security for the Bond.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

The annual requirements of principal and interest to amortize bonded debt as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 435,400	\$ 389,039	\$ 824,439
2010	936,200	371,506	1,307,706
2011	976,900	353,138	1,330,038
2012	497,700	333,933	831,633
2013	597,172	396,281	993,453
2014-2018	2,815,000	1,234,525	4,049,525
2019-2023	3,405,000	394,695	3,799,695
	<u>\$ 9,663,372</u>	<u>\$ 3,473,117</u>	<u>\$ 13,136,489</u>

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE I—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued

Funding policy—Continued

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 16.72 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2008, 2007, 2006 were approximately \$2,016,000, \$2,031,000, and \$1,961,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE J—COMMITMENTS AND CONTINGENCIES

Construction Contracts – As of June 30, 2008, the School District had awarded construction contracts totaling approximately \$2,100,000 of which \$2,000,000 of expenditures had been incurred. The contracts are the obligations of the Sinking Fund and the School District.

Grant Programs – The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE K—OTHER INFORMATION

Economic Dependence – Prior years' revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 32 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

Ludington Area School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE L—SUBSEQUENT EVENT

In August 2008, the School District received the proceeds of a \$1,300,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2009 and bears interest at the rate of 1.63 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Ludington Area School District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
Year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 11,962,135	\$ 12,771,077	\$ 12,743,557	\$ (27,520)
State sources	7,076,583	6,271,951	6,452,775	180,824
Federal sources	989,576	1,076,987	1,168,012	91,025
Incoming transfers and other transactions	618,500	607,000	638,155	31,155
Total revenues	20,646,794	20,727,015	21,002,499	275,484
EXPENDITURES				
Instruction				
Basic programs	11,489,249	11,482,203	11,399,934	82,269
Added needs	3,039,059	3,082,122	3,125,649	(43,527)
Support services				
Pupil	625,321	629,277	610,384	18,893
Instructional staff	440,321	548,915	457,023	91,892
General administration	280,237	308,714	295,451	13,263
School administration	1,301,879	1,260,076	1,221,033	39,043
Business	517,000	609,505	591,379	18,126
Operations and maintenance	1,875,255	1,914,462	1,913,355	1,107
Pupil transportation services	923,490	892,768	847,090	45,678
Central	93,600	91,600	74,241	17,359
Community services	105,740	105,740	88,146	17,594
Outgoing transfers and other transactions	393,600	368,600	368,300	300
Total expenditures	21,084,751	21,293,982	20,991,985	301,997
Excess (deficiency) of revenues over (under) expenditures	\$ (437,957)	\$ (566,967)	10,514	\$ 577,481
Fund balance at July 1, 2007			2,284,222	
Fund balance at June 30, 2008			\$ 2,294,736	

Ludington Area School District
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2008

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

September 22, 2008

Board of Education
Ludington Area School District
Ludington, Michigan

We have audited the financial statements of Ludington Area School District as of and for the year ended June 30, 2008 and have issued our report thereon dated September 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ludington Area School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ludington Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ludington Area School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 and 2, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

BRICKLEY DELONG

Board of Education
September 22, 2008
Page 2

Compliance

As part of obtaining reasonable assurance about whether Ludington Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Ludington Area School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Ludington Area School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 22, 2008

Board of Education
Ludington Area School District
Ludington, Michigan

Compliance

We have audited the compliance of Ludington Area School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Ludington Area School District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ludington Area School District's management. Our responsibility is to express an opinion on Ludington Area School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ludington Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ludington Area School District's compliance with those requirements.

In our opinion, Ludington Area School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Ludington Area School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Ludington Area School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ludington Area School District's internal control over compliance.

Board of Education
September 22, 2008
Page 2

Internal Control Over Compliance—Continued

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in Part C in the accompanying Schedule of Findings and Responses as Findings 3 and 4 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses.

Ludington Area School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Ludington Area School District's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Ludington Area School District as of and for the year ended June 30, 2008 and have issued our report thereon dated September 22, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.

Ludington Area School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement Program or award amount	Accrued revenue July 1, 2007	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued revenue June 30, 2008	
					Prior year(s)	Current year	Total		
<i>U.S. Department of Education</i>									
Direct program									
Alcohol Abuse Reduction Grant Q184A050316	84.184A	\$ 885,806	\$ 97,938	\$ 344,598	\$ 513,788	\$ 307,982	\$ 821,770	\$ 61,322	
Passed through Michigan Department of Education									
Title I	84.010								
715300607		523,436	135,510	135,510	518,139	-	518,139	-	
815300708		588,827	-	495,692	-	588,827	588,827	93,135	
		1,112,263	135,510	631,202	518,139	588,827	1,106,966	93,135	
Handicapped Preschool & School Programs	84.027								
0704400607		4,500	2,954	2,954	4,500	-	4,500	-	
Drug Free Schools and Communities Act	84.186								
0728600607		12,663	5,566	5,566	12,663	-	12,663	-	
0828600708		13,128	-	12,000	-	13,128	13,128	1,128	
		25,791	5,566	17,566	12,663	13,128	25,791	1,128	
Title V LEA Allocation	84.298								
0702500607		2,133	618	618	2,133	-	2,133	-	
0802500708		3,836	-	3,643	-	3,836	3,836	193	
		5,969	618	4,261	2,133	3,836	5,969	193	
Technology Literacy Challenge Grants	84.318								
0742900607		5,373	2,891	2,891	5,373	-	5,373	-	
0842900708		5,462	-	4,516	-	5,462	5,462	946	
		10,835	2,891	7,407	5,373	5,462	10,835	946	
Improving Teacher Quality	84.367								
070520607		156,527	42,553	42,553	156,527	-	156,527	-	
070520607		157,732	-	135,590	-	157,732	157,732	22,142	
		314,259	42,553	178,143	156,527	157,732	314,259	22,142	
Total passed through Michigan Department of Education		1,473,617	190,092	841,533	699,335	768,985	1,468,320	117,544	
Total U.S. Department of Education		2,359,423	288,030	1,186,131	1,213,123	1,076,967	2,290,090	178,866	

Ludington Area School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement Program or award amount	Accrued revenue July 1, 2007	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued revenue June 30, 2008
					Prior year(s)	Current year	Total	
<i>U.S. Department of Agriculture</i>								
Passed through Michigan Department of Education								
Entitlement Commodities	10.550	\$ 36,754	\$ -	\$ 36,754	\$ -	\$ 36,754	\$ 36,754	\$ -
Child Nutrition Cluster								
Breakfast	10.553							
071970		5,580	-	5,580	-	5,580	5,580	-
081970		56,557	-	56,557	-	56,557	56,557	-
		<u>62,137</u>	<u>-</u>	<u>62,137</u>	<u>-</u>	<u>62,137</u>	<u>62,137</u>	<u>-</u>
All Lunches	10.555							
071950		4,984	-	4,984	-	4,984	4,984	-
081950		38,802	-	38,802	-	38,802	38,802	-
Free and Reduced								
071960		26,846	-	26,846	-	26,846	26,846	-
081960		203,315	-	203,315	-	203,315	203,315	-
		<u>273,947</u>	<u>-</u>	<u>273,947</u>	<u>-</u>	<u>273,947</u>	<u>273,947</u>	<u>-</u>
Total Child Nutrition Cluster		<u>336,084</u>	<u>-</u>	<u>336,084</u>	<u>-</u>	<u>336,084</u>	<u>336,084</u>	<u>-</u>
Total passed through Michigan Department of Education and U.S. Department of Agriculture		<u>372,838</u>	<u>-</u>	<u>372,838</u>	<u>-</u>	<u>372,838</u>	<u>372,838</u>	<u>-</u>
TOTAL FEDERAL ASSISTANCE		<u>\$ 2,732,261</u>	<u>\$ 288,030</u>	<u>\$ 1,558,969</u>	<u>\$ 1,213,123</u>	<u>\$ 1,449,805</u>	<u>\$ 2,662,928</u>	<u>\$ 178,866</u>

Ludington Area School District
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Notes:

1. Please see the financial statements footnotes for the significant accounting policies used in the preparation of this schedule.
2. Management has utilized the Grant Section Auditors Report (Form R7120) and CMS Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2008 governmental funds
financial statements

General Fund	\$ 1,168,012	
Other governmental funds (includes Food Service Fund)	<u>372,838</u>	\$ 1,540,850

Less local service fees for medicaid included in federal revenues
in the financial statements

(91,045)

Expenditures per single audit report
Schedule of Expenditures of Federal Awards

\$ 1,449,805

Ludington Area School District
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Ludington Area School District.
2. **Two (2)** significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. These significant deficiencies are not reported as material weaknesses.
3. **No** instances of noncompliance material to the financial statements of Ludington Area School District were disclosed during the audit as reported in Part B of this schedule.
4. **Two (2)** significant deficiencies disclosed during the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and are reported in Parts B and C of this schedule. The significant deficiencies are not reported as material weaknesses.
5. The auditors' report on compliance for the major federal award programs for Ludington Area School District expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Agriculture</i> Child Nutrition Cluster	10.553 and 10.555
<i>U.S. Department of Education</i> Title I, Part A	84.010

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Ludington Area School District was not determined to be a low-risk auditee.

Ludington Area School District
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: Bank Account Procedures

Criteria: All bank accounts should be reconciled on a timely basis.

Condition: During our detailed audit testing, we noted that one investment general ledger account had not been adjusted for interest income received throughout the year.

Cause: The investment account monthly statements were not reconciled to the general ledger account balance.

Effect: The interest income was not recorded in the general ledger as received, and other differences between the investment account and the general ledger could have occurred without timely identification.

Recommendation: All bank accounts should be reconciled to supporting documentation on a timely basis...

School District Response: The School District agrees with the audit finding and procedures will be implemented to ensure all bank accounts are timely reconciled.

Fiscal 2008 Finding No. 2: Federal Program Compliance Review and Approval Procedures

Criteria: Internal controls over federal award program compliance should include the segregation of duties control procedure of review and approval of compliance with significant federal requirements.

Condition: During our review of the Child Nutrition Cluster and Title I program internal controls, we noted that review and approval procedures were not established for certain eligibility and reporting compliance requirements. See Fiscal 2008 Findings No. 3 and 4 in Part C for related findings.

Cause: Management has not established such review and approval procedures.

Effect: Errors or the misappropriation of funds could occur and not be detected timely.

Recommendation: Review and approval procedures, including documentation of such procedures, should be established for federal award program compliance requirements.

School District Response: Internal control procedures will be enhanced to include documented review and approval procedures.

Ludington Area School District
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

U.S. Department of Agriculture

Fiscal 2008 Finding No. 3: Child Nutrition Cluster Review and Approval Procedures

Pass-through entity: Michigan Department of Education

CFDA: 10.553 and 10.555

Award Numbers: 071970, 081970, 071950, 081950, 071960, 081960

Award Year Ends: September 30, 2007 and September 30, 2008

Specific Requirement: Eligibility and Reporting

Criteria: Per OMB Circular A-133, internal control is a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) Effectiveness and efficiency of operations, 2) Reliability of financial reporting, and 3) Compliance with applicable laws and regulations.

Condition: There are **no** oversight or review internal control procedures in place for the eligibility and reporting compliance requirements. The effect of conditions in Fiscal 2008 Finding No. 4 in Part C below and this finding are combined in the reporting of the significant deficiency in Fiscal 2008 Finding No. 2 in Part B above.

Cause: The eligibility and reporting functions are performed by management level personnel with no review and approval by an appropriate individual.

Effect: The lack of internal controls over the above functions could lead to errors going undetected.

Recommendation: Internal control procedures should be established to address the current lack of performance and documentation of Child Nutrition Cluster review and approval procedures.

School District Response: Internal control procedures will be enhanced to include documented review and approval procedures.

Ludington Area School District
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

SIGNIFICANT DEFICIENCIES—Continued

U.S. Department of Education

Fiscal 2007 Finding No. 4: Title I, Part A Review and Approval Procedures

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 715300607 and 815300708

Award Year Ends: September 30, 2007 and September 30, 2008

Specific Requirement: Eligibility and Reporting

Criteria: Per OMB Circular A-133, internal control is a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) Effectiveness and efficiency of operations, 2) Reliability of financial reporting, and 3) Compliance with applicable laws and regulations.

Condition: There are **no** documented oversight or review internal control procedures in place for the eligibility and reporting compliance requirements. The effect of conditions in Fiscal 2008 Finding No. 3 in Part C above and this finding are combined in the reporting of the significant deficiency in Fiscal 2008 Finding No. 2 in Part B above.

Cause: The eligibility and reporting functions are performed by management level personnel with no documented review and approval by an appropriate individual.

Effect: The lack of internal controls over the above functions could lead to errors going undetected.

Recommendation: Internal control procedures should be established to address the current lack of documentation of Title I, Part A review and approval procedures.

School District Response: These procedures are being completed, but not documented. Internal control procedures will be enhanced to include documented review and approval.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

September 22, 2008

Michigan Department of Education
Lansing, Michigan

Ludington Area School District respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2007 dated August 31, 2007.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Cash Disbursement Procedures for School Service Funds

Condition: During our testing, we noted that Athletic Fund and Food Service cash disbursements were made without proper evidence of receipt or of proper approval for payment.

Recommendation: The School District should utilize existing procedures, which require evidence of receipt and approval for payment prior to disbursement of all funds.

Current Status: This recommendation was adopted in fiscal 2008. *No* similar finding was noted in the fiscal 2008 audit.

Fiscal 2007 Finding No. 2: Child Nutrition Cluster Review and Approval Procedures

Condition: There is not an oversight or review internal control procedure in place for the eligibility and reporting compliance requirements.

Recommendation: Internal control procedures should be established to address the current lack of performance and documentation of Child Nutrition Cluster review and approval procedures.

Current Status: This recommendation was not implemented during fiscal 2008. See Fiscal 2008 Finding No. 3 for similar finding.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2007 Finding No. 3: Title I, Part A Review and Approval Procedures

Condition: There is not an oversight or review internal control procedure in place for the cash management, eligibility and reporting compliance requirements.

Recommendation: Internal control procedures should be established to address the current lack of performance and documentation of Title I, Part A review and approval procedures.

Current Status: Recommendations surrounding the cash management procedures were implemented. However, the recommendation related to the eligibility and reporting compliance area was not implemented during fiscal 2008. See Fiscal 2008 Finding No. 4 for similar finding.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Education

Fiscal 2007 Finding No. 4: Title I, Part A

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 71530 0607 and 61530 0506

Award Year End: September 30, 2007

Specific Requirements: Allowable Costs/Cost Principles

Condition: We noted one salaried employee who completed the semi-annual time certification. However, the employee did not work solely for the Title I program. Therefore, the employee was not eligible to utilize semi-annual time certification.

Recommendation: The School District should require all employees who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs to prepare the required documentation.

Current Status: New procedures were implemented during fiscal 2008. **No** similar finding was noted during the audit for the year ended June 30, 2008.

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS
AUDIT—Continued**

COMPLIANCE—Continued

U.S. Department of Education

Fiscal 2007 Finding No. 5: Title I, Part A

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 71530 0607 and 61530 0506

Award Year End: September 30, 2007

Specific Requirements: Allowable Costs/Cost Principles

Condition: We noted one salaried employee who was charged improperly to the Title I program. Time records indicated that the program should have been only charged for 30% of the employee's costs. The program was charged for 70% of the employee's costs.

Recommendation: The School District should require all employees, who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs, to prepare the required time allocation documentation. In addition, an appropriate individual should be responsible for reviewing the wage allocation of Title I employees to ensure that wages and benefits are properly allocated in postings to the general ledger.

Current Status: New procedures were implemented during fiscal 2008. **No** similar finding was noted during the audit for the year ended June 30, 2008.

U.S. Department of Agriculture

Fiscal 2007 Finding No. 6: Child Nutrition Cluster

Specific Requirements: Eligibility

Condition: We noted during our testing that two applications for eligibility were not signed or initialed by the determining official.

Recommendation: The School District should review its eligibility determination procedures to ensure that the determining official's signature or initials with date are documented on the application, as documentation of review and approval.

Current Status: New procedures were implemented during fiscal 2008. **No** similar finding was noted during the audit for the year ended June 30, 2008.

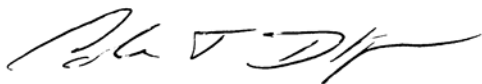
Michigan Department of Education
September 22, 2008
Page 4

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued

SIGNIFICANT DEFICIENCIES

See Findings No. 2 and No. 3 in Part B above.

Sincerely,

A handwritten signature in black ink, appearing to read "Calvin De Kuiper", with a stylized flourish at the end.

Calvin De Kuiper
Superintendent

CORRECTIVE ACTION PLAN

September 22, 2008

Michigan Department of Education
Lansing, Michigan

Ludington Area School District respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2008

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2008 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings reported in relation to the financial statement audit.

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: Bank Account Procedures

Recommendation: All bank accounts should be reconciled to supporting documentation on a timely basis.

Action Taken: The School District agrees with the audit finding and procedures will be implemented to ensure all bank accounts are timely reconciled.

Fiscal 2008 Finding No. 2: Federal Program Compliance Review and Approval Procedures

Recommendation: Review and approval procedures, including documentation of such procedures, should be established for federal award program compliance requirements.

Action Taken: Internal control procedures will be enhanced to include documented review and approval procedures.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

There were *no* compliance findings reported in relation to major federal award programs.

SIGNIFICANT DEFICIENCIES

U.S. Department of Agriculture

Fiscal 2008 Finding No. 3: Child Nutrition Cluster Review and Approval Procedures

Recommendation: Internal control procedures should be established to address the current lack of performance and documentation of Child Nutrition Cluster review and approval procedures.

Action Taken: Internal control procedures will be enhanced to include documented review and approval procedures.

U.S. Department of Education

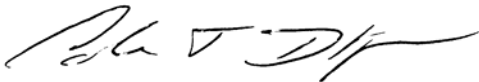
Fiscal 2008 Finding No. 4: Title I, Part A Review and Approval Procedures

Recommendation: Internal control procedures should be established to address the current lack of documentation of Title I, Part A review and approval procedures.

Action Taken: Internal control procedures will be enhanced to include documented review and approval.

If the Michigan Department of Education has questions regarding this plan, please call Calvin De Kuiper at (231) 845-7303.

Sincerely,



Calvin De Kuiper
Superintendent

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 22, 2008

Board of Education and
Calvin De Kuiper
Ludington Area School District
Ludington, Michigan

In planning and performing our audit of the financial statements of Ludington Area School District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Ludington Area School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

Cash and Investments

Recommendation 1: All bank accounts should be reconciled to supporting documentation on a timely basis.

During our testing, we noted one investment account that had not been adjusted for interest income received throughout the year.

The completion of bank reconciliation for all accounts on a monthly basis would help ensure that all interest income is recorded, that interim financial statements are accurate, and that differences between bank account activity and general ledger activity are timely identified.

Federal Award Programs

Recommendation 2: Review and approval procedures, including documentation of such procedures, should be established for federal award program compliance requirements.

During our review of Child Nutrition Cluster and Title I program internal controls, we noted that review and approval procedures were not established or documented for certain eligibility and reporting compliance requirements.

The establishment of review and approval procedures, including documentation of such procedures, could reduce the possibility of noncompliance with federal award program compliance requirements.